

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 FEA-01 AGRE-00 CEA-01

CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 EPG-02 AID-05

SS-15 STR-04 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02

OMB-01 AF-10 ARA-06 EA-07 NEA-10 OIC-02 /136 W

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E.O. 11652: N/A

TAGS: GATT, ETRD, FI, HU, EEWT

SUBJECT: GATT WP ON FINLAND-HUNGARIAN FREE TRADE AGREEMENT

REF: STATE 104261

BEGIN SUMMARY: WP PRODUCED NO SIGNIFICANT BREAKTHROUGHS AND ISSUED SPLIT CONCLUSIONS, BOTH ON QUESTION OF NEED FOR FURTHER WORK AND TIMING OF SAME. DISCUSSION OF WHETHER CONTINUING EXAMINATION IS NECESSARY MAY ARISE IN MAY 23 GATT COUNCIL.
END SUMMARY.

1. DURING MAY 9-11 GATT WP ON SUBJECT AGREEMENT, FINLAND AND HUNGARY, SUPPORTED BY POLAND AND CZECHOSLOVAKIA, SAID AGREEMENT CONFORMED TO ALL GATT PROVISIONS AND NO FURTHER DATA WAS NEEDED. US, EC, JAPAN, CANADA, SWITZERLAND SAID MORE STATISTICAL EXPERIENCE WOULD BE REQUIRED BEFORE A DETERMINATION COULD BE MADE AS TO GATT CONSISTENCY. US, JAPAN, CANADA SAID AGRICULTURAL COVERAGE OF AGREEMENT NOT SUFFICIENTLY
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BROAD NOW TO MEET ARTICLE XXIV REQUIREMENTS.

2. HUNGARY, IN RESPONSE TO EC PRODDING, SAID THERE HAD BEEN 18 GATT WPS TO EXAMINE FREE TRADE AREAS, YET THIS WAS THE FIRST WHICH PRETENDED TO GO INTO AN ITEM-BY-ITEM STATISTICAL EXAMINATION OF THE TRADE. HUNGARY QUESTIONED WHETHER EC WAS PREPARED TO ASK OF THE OTHER WP EXAMINATIONS

WHAT THEY WERE ASKING OF HUNGARY; EC SAID EACH AGREEMENT IS DIFFERENT. CZECHOSLOVAKIA ASKED WHETHER EC WAS ATTEMPTING APPLY SPECIAL AND DISCRIMINATORY RULES IN THE CASE OF CENTRALLY PLANNED, STATE TRADING COUNTRIES. US INTERVENED ALONG LINES PARA 2 REFTEL TO EFFECT THAT WHILE WE DID NOT SAY THAT NO AGREEMENT BETWEEN CENTRALLY PLANNED, STATE TRADING COUNTRIES AND MARKET ECONOMY COUNTRIES COULD BE CONSISTENT WITH ARTICLE XXIV UNDER ANY CIRCUMSTANCES, WE DID FEEL THAT NOVEL AND SERIOUS QUESTIONS WERE RAISED WHICH REQUIRED THOROUGH EXPLORATION.

3. US AND EC QUESTIONED HUNGARY ON ITS POLICY OF PRICING EXPORTS, AS RELATED TO TRADE WITH FINLAND. WE READ QUESTIONS CONTAINED PARAS 2 THROUGH 5 OF REFTEL ON LIMIT PRICES AND INPUT PRICES. HUNGARY SAID SUCH QUESTIONS NOT RELEVANT TO WP WORK BUT CLAIMED ALL HUNGARIAN TRADE REGULATIONS WERE PUBLISHED IN OFFICIAL JOURNAL.

4. US NOTED THAT PARAS 3(A) AND 3(B) OF HUNGARIAN ACCESSION PROTOCOL TO GATT SEEMED CONTRADICTORY (SEEMING TO ALLOW DISCRIMINATION IN FAVOR OF CEMA COUNTRIES ON THE ONE HAND AND REQUIRING NO DISCRIMINATION AGAINST OTHER COUNTRIES ON THE OTHER) AND ASKED WHICH OF THESE PARAS WOULD APPLY IN THE CASE OF FINLAND-HUNGARIAN AGREEMENT. HUNGARY SAID SYSTEM WORKS AS IT DID AT TIME OF HUNGARY'S ACCESSION TO THE GATT AND NOTED THAT ACCESSION WORKING PARTY HAD FELT THERE WAS NO CONTRADICTION IN THESE TWO PARAS.

5. EC, CITING HUNGARIAN DECREES OF 3 DECEMBER AND 30 DE-
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CEMBER, 1975 WITH RESPECT GOVERNMENT EXPORT GRANTS, INQUIRED WHICH HUNGARIAN PRODUCTS WERE EXPORTED TO FINLAND UNDER THESE LAWS. HUNGARY SAID THESE REGULATIONS DO NOT INDICATE GROUPS OF PRODUCTS. EC THEN INQUIRED WHETHER THESE DECREES WERE SUSPENDED FOR SALES TO FINLAND; HUNGARY SIMPLY SAID SYSTEM WAS MEANT TO BOOST EXPORTS TO CONVERTIBLE CURRENCY AREAS.

6. AFTER US CITED THE PUBLISHED ARTICLE MENTIONED PARA 2 OF REFTEL, HUNGARY COUNTERED BY READING FROM SOME RECENT ISSUE OF GEORGETOWN UNIVERSITY JOURNAL, WHICH PURPORTED GIVE US MOTIVES FOR OUR POSITION IN THIS WP. THIS EXAMPLE WAS USED TO SHOW SPECULATIVE NATURE OF PUBLISHED ARTICLES, AND HUNGARY AGAIN REFUSED COMMENT ON "LIMIT" AND "INPUT" PRICES.

7. HUNGARY OBJECTED TO EC AND US CALL FOR FURTHER SESSION OF WP WITHIN 18 MONTHS, CITING GATT CP DECISION IN DOCUMENT SR 27/12, PARA 4(C), 22 DECEMBER 1971, WHEREBY FTAS WERE

TO BE REVIEWED ONLY ONCE EVERY TWO YEARS. US AND EC NOTED THAT AT THAT TIME THERE WERE NO AGREEMENTS BETWEEN CENTRALLY PLANNED AND MARKET ECONOMY COUNTRIES. WP REACHED EXPECTED CONCLUSIONS THAT PARTIES TO AGREEMENT, SUPPORTED BY TWO OTHER MEMBERS, FELT AGREEMENT WAS IN FULL CONFORMITY WITH PROVISIONS ARTICLE XXIV - COUNTERED BY STATEMENT THAT SEVERAL MEMBERS SAID THEY STILL COULD NOT, ON BASIS OF AVAILABLE INFORMATION, EXPRESS A VIEW ON THE QUESTION OF CONFORMITY WITH ARTICLE XXIV.

8. FINAL PARAGRAPH OF CONCLUSIONS PRESAGES POSSIBLE GATT COUNCIL FIGHT ON MAY 23; READS QUOTE AS THE WORKING PARTY COULD NOT REACH ANY UNANIMOUS CONCLUSION AS TO THE COM- PATIBILITY OF THE AGREEMENT WITH THE PROVISIONS OF THE GENERAL AGREEMENT, IT CONSIDERED THAT IT SHOULD LIMIT ITSELF TO REPORTING THE OPINIONS EXPRESSED TO THE COUNCIL UNQUOTE. HUNGARY EXPECTED TELL COUNCIL NO FURTHER WORK LIMITED OFFICIAL USE

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IS NECESSARY AND MAY CLAIM ALL EC AGREEMENTS PRESENTED UNDER ARTICLE XXIV SHOULD BE SUBJECTED TO SAME TREATMENT AS FINLAND-HUNGARY AGREEMENT. SUGGEST WE LET EC FEND FOR THEMSELVES CONCERNING THEIR FTA'S BUT OPPOSE ANY NOTION THAT FINLAND-HUNGARY WP HAS FINISHED ITS WORK. SORENSON

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